AR55

CINAR

1997 ANNUAL REPORT

Financial Highlights

Year ended November 30	1997	1996	1995	1994	1993
Earnings Statement Data					(thousands of dollars)
Revenues	**93,678**	57,935	42,107	29,875	20,958
Gross profit	**30,809**	15,512	10,507	7,247	5,035
Cash flow from operations	**18,772**	11,671	6,716	4,877	2,279
Net earnings	**12,871**	8,461	5,257	3,434	1,830
Balance Sheet Data					(thousands of dollars)
Working capital	**231,965**	97,733	47,677	20,185	16,244
Total assets	**378,327**	148,572	66,996	37,106	27,151
Shareholders' equity	**299,257**	123,976	48,306	20,704	17,161
Per Share Data					(dollars)
Cash flow	**1.40**	1.07	0.76	0.68	0.42
Net earnings	**0.96**	0.78	0.59	0.48	0.34
Book value	**18.41**	9.81	4.90	2.87	2.42
Average number of shares outstanding	**13,369,341**	10,912,043	8,843,483	7,155,132	5,440,647
Selected Ratios					
Gross profit	**33%**	27%	25%	24%	24%
Net earnings	**14%**	15%	12%	11%	9%

ARTHUR™ is a joint effort of CINAR and WGBH Educational Foundation.
ARTHUR™ is a trademark of Marc Brown.

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Corporate Profile

CINAR is an integrated entertainment company involved in the development, production, post-production and worldwide distribution of non-violent quality programming and educational products for children and families.

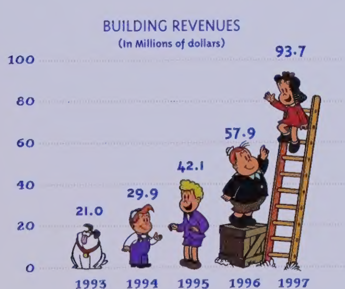
A public company headquartered in Montreal, CINAR's shares are traded on the Toronto and Montreal Exchanges (CIF:A, CIF:B) as well as on the Nasdaq (CINRF) in the U.S. The Company employs more than 400 full-time staff and over 650 additional people on a contractual basis.

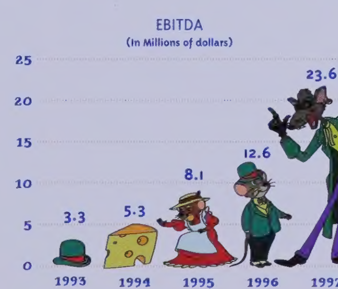
Its divisions and subsidiaries include: CINAR Animation, a full-service animation studio; CINAR Studios, a state-of-the-art sound recording, mixing, audio and video post-production facility; CINAR Productions, which produces company productions and co-productions; CINAR Music, a music creation, recording and publishing division; FilmFair, a U.K.-based model-animation studio, which includes a library of well-known children's television titles; and CINAR Europe, the Company's worldwide marketing and distribution arm, with offices in London and Shannon, Ireland. U.S.-based Carson-Dellosa Publishing Company and its affiliates, The Wild Goose Company and Unique Collating Service, are subsidiaries of CINAR Education.

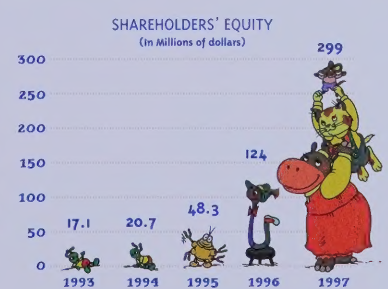
Mission Statement

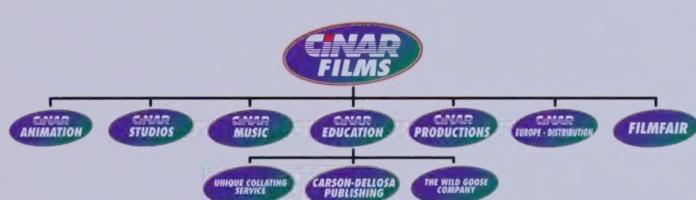
CINAR is committed to entertaining and educating children and families by producing, distributing and marketing quality, non-violent television programs and educational products for the global marketplace. We intend to grow profitably by tapping the full potential of our steadily increasing library assets, by aggressively exercising our merchandising and licensing rights and by capitalizing on the synergies between entertainment and education to expand into new markets.

Through co-production and distribution relationships with major production companies, broadcasters and publishing companies around the world, CINAR's productions are seen daily in Canada, the U.S. and in more than 150 other countries. At year-end 1997, the Company's library contained 66 original titles amounting to 1,174 half-hours of programming.







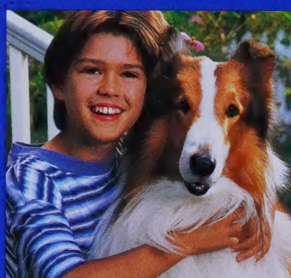


Year in Review

Dec 96

Jan 97

Feb 97



Mar 97

Apr 97

May 97

Jun 97

Carson-Dellosa Publishing

Jul 97

Aug 97

Sept 97

Oct 97

Nov 97

New Markets - New International Alliances - Record Financial Results

December 96

CINAR posts 87% increase in fourth-quarter net earnings.

Year-end results for 1996: net earnings up 61% and revenues increase by 38%.

Cameras roll on second season of Lucy Maud Montgomery's *Emily of New Moon*™. Series extended to 26 hours.

January 97

The Wombles are back as CINAR's first model-animation series with FilmFair. The CINAR/HTV series begins production with 13 new episodes to air on ITV.

February 97

CINAR reports 68% increase in net earnings for the first quarter of 1997.

CINAR library surpasses 1,000 half-hour threshold.

CINAR announces agreement with PolyGram Filmed Entertainment on six CINAR productions beginning with *Lassie*™.

CINAR announces agreement with Reader's Digest Association on *The Country Mouse and the City Mouse Adventures*™.

March 97

ARTHUR™ is No. 1 rated children's program on PBS.

Lassie™ premieres on Discovery Communication's Animal Planet and YTV.

April 97

Production begins on new season of *ARTHUR*™, a CINAR/WGBH Boston joint effort: 10 additional episodes to be produced in 1997 for a total of 50 episodes.

May 97

Record increase of 68% of net earnings in second-quarter 1997.

Production begins on first co-production with Denmark, new pre-school series *MumbleBumble*™, with Egmont Imagination.

June 97

PBS signs agreement to broadcast *WIMZIE'S HOUSE*™ in Fall 1997.

New licensing division launches at Licensing '97 International in New York.

CINAR Europe opens office in London as new international base to increase business partnerships and sales.

July 97

CINAR completes new credit facility for $110 million with the Royal Bank of Canada and the Banking Branch and Trust Bank of North Carolina.

CINAR acquires U.S. educational publisher Carson-Dellosa and its affiliates, The Wild Goose Company and Unique Collating Service.

August 97

Third quarter net earnings up 71% and revenues increase 74%.

Protecrea, a subsidiary of France's leading broadcaster TF1, joins CINAR to co-produce *The Adventures of Paddington Bear*™.

September 97

Time-Life Kids to distribute *The Adventures of Paddington Bear*™ on video in the U.S. and Japan.

TELETOON, Canada's all-animation cable television channel, begins national French-language broadcast.

WIMZIE'S HOUSE™ begins airing daily on PBS to rave-reviews. Web site goes on line: www.wimzie.com.

Public offering closes in the U.S. and Canada with net proceeds of US$97.8 million (C$135,950,360) to CINAR.

October 97

TELETOON begins national English-language broadcast.

CINAR wins 1997 Canada Export Award.

November 97

CINAR posts record 52% increase in 1997 net earnings and 34% increase in fourth quarter net earnings.

Maryland Public Television and CINAR form partnership for *WIMZIE'S HOUSE*™ on PBS.

ARTHUR™ attracts 15 million viewers. Largest weekly audience for a PBS children's program since 1994, beating out *Barney*.

Our kid-centered sphere of activities has expanded and now enables us to reach out to kids worldwide, from television to the classroom.

Message to Shareholders

Reaching out to kids worldwide

Some 20 years ago, CINAR committed itself to a non-violent, socially responsible approach to children's programming and went on to establish global leadership in this market, earning an international reputation for excellence in animation and live-action productions. Now that the Company's principal asset—the CINAR-FilmFair library—has attained sufficient critical mass, we are well-positioned to build on that success, leveraging our valuable properties and specialized know-how to fuel a new phase of growth.

Accordingly, much of our energy in 1997 was focused on a long-term, corporate development strategy that enables us to capitalize on CINAR's core competency—our proven ability to satisfy kids' entertainment and educational needs—by expanding into new products and new markets, and tapping into significant new revenue streams.

While further increasing production and enhancing CINAR's library assets, we also:

- Made good on our commitment to enter the educational market;
- Strengthened our European base;
- Generated our first significant revenues from licensing and merchandising, and;
- Launched TELETOON, Canada's first 24-hour, all-animation cable television channel.

Together, these initiatives had the effect of considerably expanding CINAR's kid-centered sphere of activities—enabling us to reach out to kids worldwide, from the television to the classroom.

CINAR's senior management from left to right.
Top row:
Patricia Lavoie,
Hasanain Panju,
Marie-Josée Corbeil,
François Deschamps,
Andrew Porporino,
Cassandra Schafhausen.
Bottom row:
Louis Fournier,
Lesley Taylor,
Micheline Charest,
Ronald A. Weinberg,
David Ferguson.

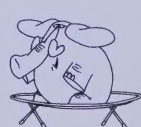
Financial highlights

Financial performance is probably the ultimate measure of whether a company is on the right track, and 1997 was another year of record results for CINAR. Net earnings increased 52% to $12.9 million, while revenues climbed 62% to $93.7 million.

Sustained growth has become somewhat of a CINAR hallmark. Since going public in 1993, the company's net earnings have increased at a compound annual growth rate of 63%. The compound annual growth rate of the EBITDA (cash flow) and revenues are 64% and 45% respectively. Particularly noteworthy is the fact that our earnings per share have a compound growth rate of 29% a year, despite significant increases in the number of shares outstanding and stringent accounting policies that utilize conservative valuations.

We are proud to have been the first television producer selected by the Toronto Stock Exchange to be included on the TSE 200 index and TSE 300 index.

In September of 1997, we completed a fourth public offering of 3.05 million Subordinate Voting Shares in the U.S. and Canada at US$ 33.75 per share. The Company received net proceeds of US$ 97.8 (C$135.9) million which will be used to help finance increased production and distribution of



original programming, to provide working capital for our recently acquired education companies, and for other corporate purposes—including potential acquisitions that fit with our strategy.

Extending CINAR's reach into the educational market

The July 1997 acquisition of Carson-Dellosa Publishing Company, Inc., a highly regarded U.S. educational publisher, represented a significant step in the execution of our corporate development strategy.

Extending our reach from the living room into the classroom opens up potentially lucrative new opportunities for cross-promotion and marketing. For instance, we will be utilizing Carson-Dellosa's distribution system to introduce our characters into the classroom with educational products—*WIMZIE'S HOUSE*™ and *The Busy World of Richard Scarry*™ will be included in Carson-Dellosa's next Back-to-School catalogue and Carson-Dellosa will use CINAR's distribution network to expand internationally. Our intent is to maintain each of these best-in-class businesses as separate operations, while capitalizing on the synergy inherent in the complementary fields of children's entertainment and education.

CINAR Europe - Expanding from our FilmFair beachhead

We also began to capitalize on the tremendous potential of our U.K.-based FilmFair subsidiary, acquired in November 1996. While FilmFair — with classic characters like Paddington Bear and the Wombles — is a valued core holding in its own right, it has also served as a beachhead for CINAR's increased presence in Europe.

Michael Bond's Paddington Bear will celebrate his 40th anniversary in 1998.

During 1997, our newly incorporated CINAR Europe subsidiary established an overseas sales force and opened offices in London and Shannon, Ireland, giving us the capability to tackle all European markets directly. These initiatives are beginning to pay off with substantial sales to important markets such as Germany, France, Spain, Italy and the U.K.

TELETOON - A significant new distribution channel

In the fall of 1997, Canada's first 24-hour, all-animation cable television channel started broadcasting. TELETOON provides CINAR Animation with its first direct-to-end-user outlet, which represents a distribution breakthrough. Both TELETOON's English and French feeds are the top-rated among Canada's new specialty channels.

As a co-founder and 20% shareholder of TELETOON, CINAR has the right to provide a substantial portion of the cable network's annual programming. During its first season, TELETOON premiered three new CINAR series: *The Adventures of Paddington Bear*™, *Caillou*™ and *Animal Crackers*®, as well as seven other series from our library.

TELETOON gives a real boost to the animation industry. The animation cable channel will inject $76 million into Canadian programs over the next seven years, of which $42 million is tagged for new productions. It adds almost 9,000 hours annually of new animation air-time to Canadian television.

CINAR Licensing - Exploiting the rights to CINAR properties

The initial growth of CINAR Licensing, our newest division, is based primarily on our interest in established properties such as *ARTHUR™* and *Paddington Bear* — a merchandising star for the past 40 years. This start-up division is now beginning to aggressively exploit merchandising and licensing rights from other characters whose international presence is largely based on our television series. The division is assembling a network of agents and licensees throughout Europe, North America and Asia that contributed to licensing revenues growing from $145,000 in 1996 to nearly $600,000 in 1997.

While the global best-seller *Are You Afraid of the Dark?™* is a new attraction for licensees, cartoon characters like *Little Lulu™* (created in 1935) have an appeal that spans generations.

We believe that *WIMZIE'S HOUSE™*— the CINAR-developed preschool sitcom to which CINAR retains 100% rights—has exceptional merchandising potential. It rated highly in the November "sweeps" after only three months on PBS. It also remains the No.1 children's show in Canada. The popularity of the television series was underscored by over 3.5 million hits on both *WIMZIE'S HOUSE™* Web sites (www.wimzie.com and www.pbs.org/wimzie) after only four months on line. National corporate underwriting by Dairy Management Inc. and others is organized by Maryland Public Television, our partner for underwriting, sponsorship, and promotion on PBS.

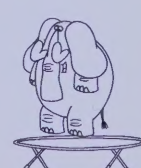
International partnerships - New markets

WIMZIE'S HOUSE™, winner of a prestigious **Parent's Choice Gold Award** in 1997.

Corporations, like people, are often judged by the company they keep. As a critically acclaimed production company, CINAR has built up strong partnerships with many co-producers and our programming is aired by broadcasters in some 150 countries around the world. Over the past year, international production revenues have risen 39% to $40.6 million, and continue to represent over 50% of total production returns.

During 1997, CINAR formed some new production, marketing, merchandising and licensing alliances with leading names in entertainment, including PBS, PolyGram Filmed Entertainment Ltd., Sony Music, Time Life Video and Television and Reader's Digest.

Such partnerships maintain our commitment to minimize risk by covering at least 80% of production costs prior to filming.



Ramping up production

Original production continues to be CINAR's principal source of revenue growth, representing 60% of total revenues.

WIMZIE'S HOUSE™ received rave reviews from the U.S. press in 1997

In 1997, we produced 14 series, one miniseries and one family film, delivering 192 half-hour equivalent episodes of original programming, thus making excellent use of our expanded, state-of-the-art post-production facilities. This compares with 171 half-hours delivered in 1996.

For 1998 and continuing into 1999, we have increased our production budget to in excess of $125 million, with more than 340 half-hour episodes currently committed and financed. On the 1998 production slate are 12 on-going series, five new series and two family films.

An excellent programming renewal rate, high television ratings and our largest production backlog ever represent a strong vote of confidence in CINAR by the marketplace.

Along with increased production, CINAR has maintained its industry-leading programming standards. *ARTHUR™* remains No. 1 on PBS for a second consecutive season. And CINAR and WGBH Boston, the winning team behind this hit series, recently announced production of an additional 15 episodes, for a total of 65, to keep up with increasing demand. *ARTHUR™* is currently sold in more than 110 countries.

Meanwhile, *WIMZIE'S HOUSE™*, CINAR's home-grown success story, shone as the new kid on the block in the U.S. children's television line-up for 1997. The series premiered on PBS one month ahead of schedule, with a pick-up by more than 300 public television stations—making it one of the most successful PBS launches ever. *WIMZIE'S HOUSE™* now reaches nearly all Canadian and U.S. households.

In 1997, The Parents' Choice Foundation honored CINAR with an unprecedented four awards for national TV programming that it recommends for educational outreach. *WIMZIE'S HOUSE™* and *ARTHUR™* captured Gold Awards, while Silver Honors went to *Lassie™* and *The Busy World of Richard Scarry™*. And our newly acquired The Wild Goose Company's *Oooh Aaah Chemistry* was also awarded a Parents' Choice Gold Award.

Growing library revenues: A treasure chest of characters

In the years after their initial delivery to broadcasters, our productions become part of the Company's expanding library. Library sales carry high profit margins and help to build the CINAR brand around the world.

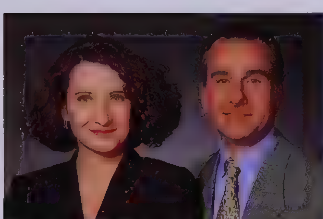
During 1997, revenues generated from CINAR's library increased 48% to $20.6 million, from $13.9 million in 1996. This year, library revenues represent 27% of production revenues as compared to 25% a year earlier. Taking into account both CINAR and FilmFair assets, the library now includes 66 titles and 1,174 half-hour episodes of original programming, along with associated production and ancillary rights.

Strategic outlook

In our strategic outlook last year, we expressed confidence that CINAR would continue its profitable growth as long as we maintain high standards, produce timeless stories with worldwide appeal and keep the promises we make. Looking back on 1997, it's fair to say that we have kept our promises.

Priorities for this year include further increasing production and identifying acquisition opportunities to complement our education group. As we continue to grow and expand outside Canada, we want to preserve our status as a Canadian company — and the concrete benefits that status confers, including production incentives and our eligibility as a Canadian broadcaster — while maintaining full access to U.S. equity markets.

Acknowledgments



In closing, we would like to take this opportunity to welcome Steve and Patricia Carson and Janet Dellosa, along with their more than 200 employees, into the CINAR family. We also wish to welcome David Ferguson, who has assumed dual responsibilities as Vice-President, CINAR Europe and Managing Director, FilmFair, and offer our congratulations to Andrew Porporino, who was appointed Vice-President, Finance-Production. We are also pleased to welcome Stephen Reitman as a new member of our Board of Directors. Thanks are owed to Hubert Marleau for the contribution he has made to the Company as a member of the Board of Directors since 1993. Finally, we want to thank managers and employees throughout CINAR's operations for their determined efforts to maintain our uncompromising standards: nothing but the best for our kids.

We appreciate your continued support.

Micheline Charest
Chairman and CEO

Ronald A. Weinberg
President

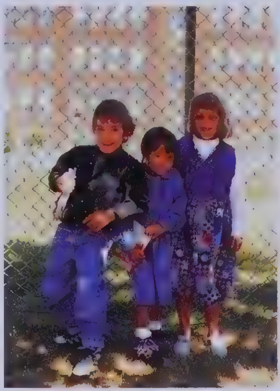
CINAR has evolved from being a producer of children's television programming to a multi-faceted children's entertainment and education company.

Review of Operations

Building value by reaching out to kids worldwide

CINAR is selling more products, in more markets, and is beginning to license more rights to its world-famous characters than ever before.

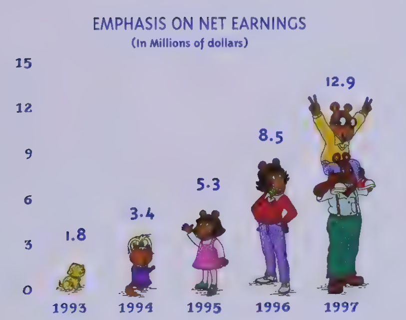
With the July 1997 acquisition of Carson-Dellosa Publishing Company and its affiliates, CINAR fulfilled its goal of acquiring an educational company to provide a major avenue of expansion. CINAR has entered a new phase in its history, evolving from being a producer and distributor of children's television programming into a multi-faceted children's entertainment and education company.

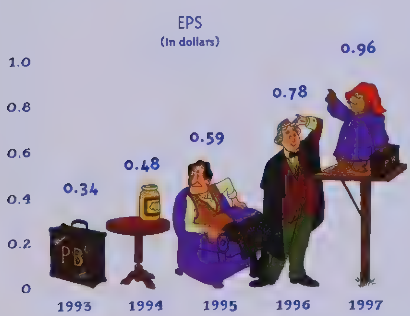


Strategic priorities

During the year under review, the Company focused on six strategic priorities—all of which contributed to an increased level of activity and a strong financial performance:

- Improving CINAR's financial flexibility;
- Diversifying into the educational market;
- Launching Canada's first all-animation cable television channel, TELETOON;
- Expanding our global reach through FilmFair and CINAR Europe;
- Accessing new revenue streams through CINAR Licensing and CINAR Music;
- Ramping up production with original, quality, non-violent programming.



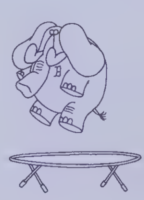


Record financial results

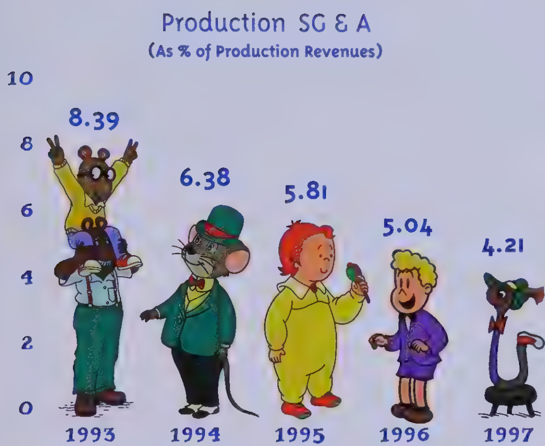
In 1997, CINAR marked its fifth straight year of achieving record financial results since going public. For the 12 months ended November 30, 1997, revenues increased 62% to $93.7 million, from $57.9 million. EBITDA (cash-flow) increased 87.4% to $23.6 million, from $12.6 million, and net earnings were up 52% to $12.9 million, from $8.5 million in 1996. Earnings per share grew by 23% to $0.96, from $0.78 last year— despite a 22% increase in outstanding shares to 13.4 million in 1997.

For the final four months of fiscal 1997, the figures include the results of Carson-Dellosa, which contributed revenues and EBITDA of $13 million and $2.4 million respectively.

Production continues to be the primary source of revenue growth for CINAR. Production revenues represented 60% of total 1997 revenues. The 1997 production slate increased 52% to $65.1 million. For 1998 and continuing into 1999, we have increased our production budget to in excess of $125 million, setting a new Company record for growth. Furthermore, the Company has compiled the largest production backlog in its history, with more than 340 half-hours of programming currently committed and financed.



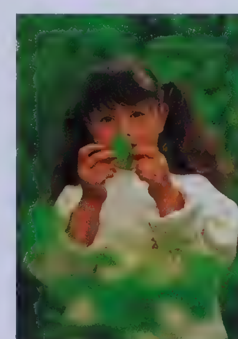
Based in the United States, Carson-Dellosa is a publisher and distributor of specialty school supplies for children, from pre-school to grade eight.



Although it is expanding, CINAR continues to keep a tight rein on overhead. Selling, General and Administrative expenses (SG&A) for production totaled $3.4 million in 1997, compared with $2.9 million a year earlier, reflecting corporate growth. However, as a percentage of total production revenues, such expenses declined from 5% in 1996 to 4.2% in 1997. Carson-Dellosa accounted for an additional $3.8 million of the 1997 SG&A expenses which, in total, represented 7.7% of overall revenues.

1997 Public offering

On September 29, CINAR completed a public offering of 2,750,000 Subordinate Voting Shares (Class B) on the Nasdaq (CINRF) and on the Toronto and Montreal Stock Exchanges (CIF.B). Its underwriters, Bear Stearns & Co. Inc., Furman Selz LLC, Montgomery Securities and Griffiths, McBurney & Partners, exercised their full over-allotment option to acquire an additional 300,000 shares bringing the total of new shares issued to 3,050,000 for net proceeds of US$97,789,100 (C$135,950,360). Net proceeds from the offering will be used to ramp up production, provide working capital for Carson-Dellosa and increase CINAR's presence in the educational market through acquisitions.



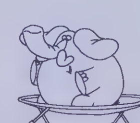
New credit facility

On July 7, 1997, CINAR entered into a new $110-million credit facility with the Royal Bank of Canada which substantially increased the Company's financial flexibility. The arrangements included a $20-million revolving credit facility for working capital, a $32.4-million reducing-term credit to finance the cash amount due for the purchase of Carson-Dellosa and its affiliated companies, and a $35-million revolving credit facility to provide interim production financing.

A class act - Entering the educational market

On July 29, 1997, CINAR acquired Carson-Dellosa Publishing Company, Inc. and its affiliates: The Wild Goose Company, a science-kit producer, and Unique Collating Service, Inc, a packaging company. The US$40.5-million transaction consisted of US$24.5 million in cash and US$16 million in CINAR Class B Subordinate Voting Shares.

Based in Greensboro, North Carolina, Carson-Dellosa is a publisher and distributor of specialty school supplies for children, from pre-school to grade eight (14 years old). It offers more than 1,600 printed products, ranging from charts to activity books, for use in the classroom. Carson-Dellosa's catalogues reach more than 1.5 million teachers throughout the U.S. and its products are sold to some 3,600 school-supply stores by Carson-Dellosa's North American sales force.



The Wild Goose Company produces nearly 100 popular science-project kits and other educational science products.

Through this acquisition, we intend to:

- Broaden the market for CINAR's television characters and licensed products by introducing them into the classroom via Carson-Dellosa's distribution network;
- Diversify Carson-Dellosa's catalogue with multi-media and other products; and
- Expand Carson-Dellosa's international market reach through CINAR's distribution network which spans over 150 countries.

A brief look at Carson-Dellosa's market niche underscores the growing potential of this acquisition. The U.S. instructional materials market at the elementary level alone (kindergarten to grade eight) is a US$3.1 billion a year industry catering to over 2.2 million teachers and paraprofessionals. The U.S. supplemental education market is a US$1.35-billion industry with 30% of sales generated by the preschool-to-grade-two market. As for demographics, according to the *Wall Street Journal*, by the year 2000, children under 13 years of age will account for one in every six Americans. Furthermore, it is estimated that children between the ages of four and 12 already influence more than US$172 billion of purchases annually.

Wild Goose products have won many awards including a **Parents' Choice Gold Award**.

Defining the right approach and finding a quality education company that met CINAR's criteria for entry into the educational field took two years. However, we're convinced that our diligence has paid off in finding a partner with the right fit. Like CINAR, Carson-Dellosa has demonstrated an ability for developing evergreen characters and products with a long shelf life, resulting in a high level of resales. And it is ranked by teachers as one of the top five U.S. companies in the supplementary educational market in terms of product quality, service and prices.

The Wild Goose Company

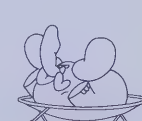
The Wild Goose Company (www.goosescience.com) produces nearly 100 popular science-project kits and other science-related products. Included are licensed science kits for the PBS family science show *Newton's Apple*® and the *Leonardo* series for The Boston Museum of Science. Plans for 1998 include the production of kits for The Museum of Science and Industry in Chicago and an agreement with Houghton Mifflin to distribute the Wild Goose supplementary science curriculum to elementary schools throughout the U.S.

Wild Goose sells to school-supply stores and specialty retailers. The Company has won 17 awards for its irreverent and unintimidating approach to science and its ingenious experiments, including a Parents' Choice Gold Award and a Best Toy Award from The DuPont Nemours Foundation. As a result, its national teacher-training programs, books and other products are growing in popularity.

Opposite page: Cover of Jr. Boom Academy, a Wild Goose workbook used by teachers and students.

TELETOON: Canada's first 24-hour animation channel

CINAR is a founder and shareholder of TELETOON, Canada's first and only 24-hour, all-animation station. TELETOON ranks No.1 among four French specialty networks launched since September and is in the top three of all 24 English specialty services in Canada (Nielsen Media



FilmFair and CINAR have staged successful television comebacks for two of Britain's national folk heroes, Paddington Bear and the Wombles.

Research). As Canada's leading producer of non-violent children's animation, CINAR now has access to a new source of production financing and a strategically important distribution outlet, providing CINAR Animation with a direct link to the viewer for the first time.

CINAR has the right to produce a substantial portion of TELETOON's annual programming. CINAR series featured during the premiere season included *Caillou*™, *The Adventures of Paddington Bear*™ and *Animal Crackers*®, plus seven other series from our library. CINAR also works closely with TELETOON on outreach programs which include an eight-month literacy tour with Paddington Bear in 1998.

TELETOON ranks among Canada's top-rated specialty cable channels.

Fanfare for FilmFair

Less than a year after the November 1996 acquisition of U.K.-based FilmFair Ltd., CINAR has staged successful television comebacks for two of Britain's national folk heroes, Paddington Bear and the Wombles. And two new series are also in development at FilmFair's expanded model-animation studio.

CINAR's new cel-animated version of *The Adventures of Paddington Bear*™, developed with creator Michael Bond, is already a hit. The 26-episode series is co-produced with Protecrea, a subsidiary of TF1, France's leading broadcaster, in association with ITV and several other partners. The Wombles have resurfaced in a new 13-episode television series that also airs on Britain's ITV network. Co-produced by CINAR and HTV, this series continues production in 1998 with 13 additional episodes. *The Wombles*® is adapted from Elizabeth Beresford's popular book series, which has been translated into 40 languages.

ESCALATING LIBRARY SALES
(In Millions of dollars)

CINAR Europe

FilmFair also provided CINAR with a base from which to launch CINAR Europe Ltd. Incorporated in June 1997, this division operates from offices in London and Shannon, Ireland. A team of three senior sales executives, each with specific territorial responsibilities, oversees the marketing of television properties throughout Europe, working in conjunction with the sales and production teams at CINAR headquarters in Montreal.

The new division's focused approach towards European sales is beginning to pay off with sharply increased revenues from key markets such as France, Germany, Italy, Spain and the U.K. Inroads have also been made in Eastern Europe.

Dubbing many series into Spanish will provide additional distribution opportunities, including the large Spanish-speaking population in the U.S.

Latin America and Asia

CINAR productions also played to sizable new audiences in Asia and Latin America during 1997, thanks to extremely successful sales in those regions. New deals in Latin America included agreements with MVS Multivisión, Latin America's leading cable, satellite, and Direct TV operator, and with conventional broadcasters Televisa and Television Azteca. CINAR is utilizing studios in Mexico to dub many of its series into Spanish. This will provide additional distribution opportunities in other markets, including the large Spanish-speaking population in the U.S. Sales were also up sharply in key Asian markets such as Singapore, the Philippines, Hong-Kong, Malaysia, Korea and Japan.

The Busy World of Richard Scarry™'s first album is in production by CINAR Music for Polygram.

CINAR Music

Music continues to play an important role in CINAR's programming and the Company is emerging as a leading administrator of film and television music publishing rights, as well as a successful producer of audio and audio-related products. CINAR Music holds the rights to more than 300 original songs and orchestral scores, which generate steadily growing royalties as CINAR programs play with increasing frequency in more and more markets worldwide. Music revenues rose 44% to $1.3 million in 1997 from $900,000 in 1996.

Sales of book-and-tape packages and albums represent another source of revenue for CINAR Music. New music products included two *WIMZIE'S HOUSE™* book-and-tape packages (Sony Music Canada) and the production of a first album for *The Busy World of Richard Scarry™* (PolyGram, U.S.). The 1998 production schedule includes albums of *ARTHUR™* songs, created and produced by CINAR and WGBH Boston and book-and-tape packages of *WIMZIE'S HOUSE™*, *The Adventures of Paddington Bear™* and *Caillou™*. All of these products will be marketed worldwide along with international sales of the television series. We also anticipate an increase in revenues from sales of audio products in the educational market.

CINAR Licensing

The growth of CINAR Licensing is currently propelled by our interest in established properties like *ARTHUR™* and *Paddington Bear*, which are supported by important licensing deals with Hasbro, Eden Toys and Sears. This new division is also introducing both classic and new characters from other CINAR television series such as *The Little Lulu Show™*, *Are You Afraid of the Dark?™* and *Caillou™*, which have attracted widespread interest around the world.

Initial results of CINAR Licensing are confirming the widespread appeal and revenue-producing potential of the Company's steadily expanding library of top-quality properties. Agents have been appointed in the U.S., France, the U.K., Italy and the Philippines to expedite new product licensing.

Licensing both classic and new characters from CINAR television series is a new business activity and holds enormous upside.

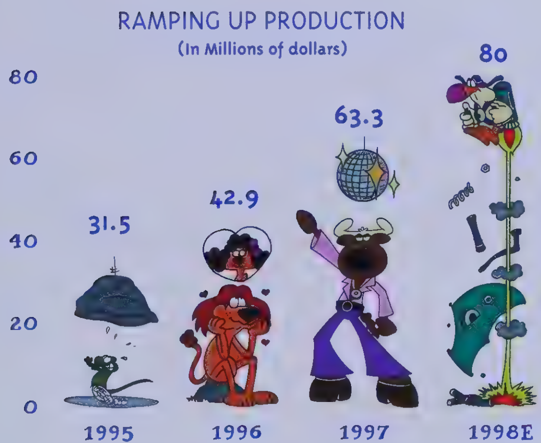
Although licensing is a new business activity for CINAR, it holds enormous upside, especially considering the sales potential in CINAR's target market, the two-to-11-year-old age group.

A principal focus of licensing activity in 1998 is *WIMZIE'S HOUSE*™, to which the Company owns 100% of the merchandising and licensing rights. The pre-school sitcom is Canada's No.1 children's show and is rising quickly in U.S. ratings following its successful September debut on PBS. *WIMZIE'S HOUSE*™ is expected to generate multiple licensing opportunities in 1998-99, including educational activity books with Carson-Dellosa, home video and audio soundtracks with Sony Music, a CD-ROM, as well as other educational products.

Licensed products are an increasing source of revenue for CINAR.

Production

As *TIME* magazine (November 24, 1997) recently acknowledged: "CINAR is one of the leaders of a small fleet of Canadian companies producing superior children's programming that reaches young viewers around the globe."



In 1997, CINAR produced 14 series (10 animation and four live-action), one miniseries and one family film. Five animation and three live-action series as well as one family film were on-going from 1996. Deliveries amounted to 192 half-hour equivalent episodes.

Looking ahead, the 1998-99 slate includes 17 series. Twelve series are continuing with additional episodes, compared to eight in 1997. These on-going series include nine animation series and three live-action series. Two family films are also scheduled for production.

Please turn to page 27 for the full production table.

Some 1997 highlights and new strategic partnerships:

- *ARTHUR*™, PBS' top-rated kids' show for a second season, is prompting the on-going team effort between CINAR and WGBH Boston, as the hit series continues in production for another 15 episodes. A total of 65 episodes will be available in 1998-99.

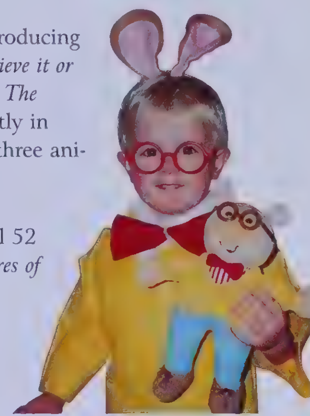
- Other PBS partnerships include *WIMZIE'S HOUSE*™ with Maryland Public Television, and the CINAR Family Film, *The Best Bad Thing*, with WQED Pittsburgh, which premieres on PBS in 1998.

- CINAR has once again teamed up with Nickelodeon, this time on the live-action "whodunit" *The Mystery Files of Shelby Woo*™ (20 episodes), and will also produce 13 new episodes of *Are You Afraid of the Dark?*™. This series continues to sell in over 110 countries. *Space Cases*™, currently sold in 98

"CINAR is one of the leaders of a small fleet of Canadian companies producing superior children's programming that reaches young viewers around the globe."
-TIME magazine

countries, is another successful co-presentation. *The Busy World of Richard Scarry™*, now in its fifth season, remains top-rated on Nick Junior.

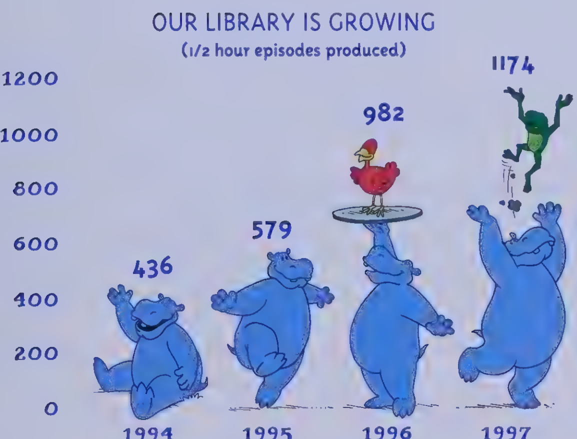
- CINAR has also aligned itself with several new French partners: Alphanim is co-producing 26 half-hour episodes of *Animal Crackers®* and 13 half-hour episodes of *Ripley's Believe it or Not!®* Protecrea, a subsidiary of France's leading broadcaster, TF1, is co-producing *The Adventures of Paddington Bear™*, as well as other new animation productions currently in development. Also, France Animation (France Télécom) continues to co-produce three animation series.



ARTHUR™ is PBS' top-rated kid's show for a second season.

- HBO continues as a partner on the production of *The Little Lulu Show™* for a total 52 episodes in 1998-99. HBO is also providing production financing for *The Adventures of Paddington Bear™* and *The Country Mouse and the City Mouse Adventures™*.

- CINAR continues to produce another 26 episodes of *Lassie™*, with PolyGram Filmed Entertainment and Golden Books Family Entertainment. The 52 episode series will air on Discovery Communications' Animal Planet and YTV.



- *Emily of New Moon™*, a CINAR co-production with Salter Street Films and Western International Communications (WIC), premiered in Canada on CBC to great ratings. A third 13-hour season of Lucy Maud Montgomery's famous autobiographical trilogy is in pre-production.

- *The Sleep Room*, a second miniseries by the CINAR-Bernard Zuckerman co-production team, depicted a controversial episode of Canadian history: Dr. Ewen Cameron's brainwashing experiments in the 1950s. A third CINAR-Bernard Zuckerman miniseries, *The Revenge of The Land*, is in development.

- Two new CINAR family films are also in production: *Un hiver de tourmente*, a CINAR-Image & Compagnie French co-production, and *Sally Marshall is Not an Alien*, a CINAR co-production with Infinity Pictures of Australia.

CINAR Library

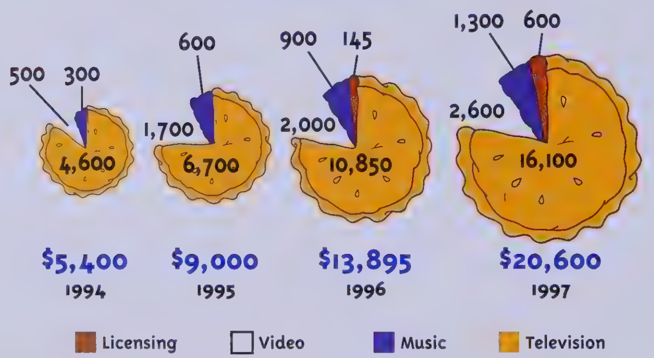
CINAR's library surpassed the 1,000-half-hour threshold in February 1997. At fiscal year-end, it had grown to 1,174 half-hours compared with 982 as of November 30, 1996. *Are You Afraid of the Dark?™*, *The Busy World of Richard Scarry™*, *ARTHUR™*, *WIMZIE'S HOUSE™*, *The Adventures of Paddington Bear ™* and *Lassie ™* are just some of the well-known titles familiar to children around the world through CINAR's television series. In 1997, library sales increased 48% to $20.6 million

Are You Afraid of the Dark?™ is seen in more than 110 countries around the world.

from 13.9 million in 1996 and now represent 27% of total production revenues. International sales were up 39% to $40.6 million, from $29.3 million in 1996.

The library is CINAR's greatest asset, generating high-margin sales, fueling new distribution opportunities and building global recognition of CINAR as a premier producer of top-quality and enduring family entertainment. We intend to leverage these valuable library assets to generate new revenue streams in merchandising, licensing, music and educational products.

EXPANDING LIBRARY SALES
(In thousands of dollars)



CINAR Library (as at November 30, 1997)

Title Cel animation • 1997 Productions	Countries sold	Number of episodes	Half-hour equivalent	Year delivered
Adventures of Paddington Bear (The)	110	3	3	1997
Animal Crackers	111	2	2	1997
ARTHUR	119	40	40	1995-97
Busy World of Richard Scarry (The)	127	65	65	1995-97
Caillou	72	45	7.5	1997
Country Mouse & the City Mouse Ad. (The)	118	26	26	1996-97
Doctor Xargle	60	13	13	1997
Ivanhoe, the King's Knight*	61	41	41	1996-97
Little Lulu Show (The)	154	26	26	1995-97
Productions delivered in previous years				
A Bunch of Munsch	93	7	7	1992
Gift of Munsch (A)	9	1	1	1993
Albert, the Fifth Musketeer*	74	26	26	1993-94
Babaloos*	57	13	13	1995
Bangers & Mash	81	25	6	1989
Blunders (The)	84	30	7	1984
Brown Bear's Wedding	99	1	1	1991
C.L.Y.D.E.*	68	26	26	1990-91
Cat Tales*	51	15	15	1993-94
Dirty Beasts and Revolting Rhymes	73	2	2	1988
Juniper Jungle	88	13	6	1993

*Shared distribution rights

Title	Countries sold	Number of episodes	Half-hour equivalent	Year delivered
Legend of White Fang* (The)	89	26	26	1992-93
Madeline	62	6	6	1990-91
Nellie the Elephant	34	30	7	1991
New Adventures of the Shoe People (The)	122	26	13	1990
NightHood*	56	26	26	1995-96
Papa Beaver Storytime*	102	26	26	1994-95
Perishers (The)	77	20	5	1979
Real Story (The)	125	13	13	1989-92
Robinson Sucroë*	54	26	26	1994
Rod 'n' Emu	72	13	6	1990
Shoe People	120	26	6	1990
Simon in the Land of Chalk Drawings	75	26	6	1985
Stop the Smoggies*	77	52	52	1988-91
Treasure Island*	18	13	13	1993
White Bear's Secret	98	1	1	1992
Windfalls	78	26	6	1988
Wonderful Wizard of Oz*	38	60	60	1987-90
Young Robin Hood*	53	26	26	1991-92
Model animation				
1997 Productions				
Wombles (The) *	28	100	36	1973-97
Productions delivered in previous years				
Astrofarm	117	53	25	1992-96
Gingerbread Man	87	13	6	1992
Hattytown	22	39	19	1971
Herbs (The)	34	13	6	1968
Huxley Pig	66	26	13	1989
Moschops	21	13	6	1983
Paddington Bear	118	59	17	1976-86
Parsley the Lion	21	32	8	1970
Portland Bill	80	75	24	1984-89
Live action - series				
1997 Productions				
Emily of New Moon*	97	17	34	1997
Lassie*	119	26	26	1996-97
Space Cases	98	27	27	1995-97
Wimzie's House	87	112	112	1995-97
Productions delivered in previous years				
Are You Afraid of the Dark?	113	65	65	1991-96
Chris Cross	74	13	13	1990-91
ENERGY*	18	1	1	1993
Happy Castle	64	13	13	1988
Intrepids (The)*	70	26	26	1991
New Adventures of the Intrepids (The)*	65	26	26	1994
Live-Action - mini-series				
1997 Productions				
Sleep Room (The)	74	2	8	1997
Live-Action - Family Films				
1997 Productions				
Best Bad Thing (The)	74	1	3	1997
Productions delivered in previous years				
Bonjour Timothy	109	1	3	1995
Million Dollar Babies	91	2	6	1994
Stand-In for Danger	50	1	1	1990
Making of Million Dollar Babies (The)	2	1	1	1994
Whole of the Moon (The)	58	1	3	1995
Total :			**1,174**	

* Shared distribution rights

1998 Production Schedule

Title	Production commitment	CINAR budget* (MM)	Co-producer / Partner (Country)
ANIMATION			
• **1997 Productions**			
Busy World of Richard Scarry (The)	65x30min	22.0	France Animation, Beta Taurus (Germany), Paramount (U.S.)
Dr Xargle	13x30min	1.3	HTV, King Rollo (U.K.), Ravensburger (Germany)
• **On-going Productions**			
Adventures of Paddington Bear (The)	26x30min	8.6	Protecrea (France)
Animal Crackers	26x30min	8.0	Alphanim (France), The Tribune Company (U.S.)
ARTHUR	65x30min	29.3	WGBH Educational Foundation (U.S.)
Babaloos (The)	130x5min	2.6	France Animation, Ravensburger (Germany)
Caillou	65x5min	2.9	
Country Mouse and the City Mouse Adventures (The)	52x30min	17.7	France Animation, Reader's Digest (U.S.), Ravensburger (Germany)
Ivanhoe, The King's Knight	52x30min	4.6	France Animation, Ravensburger (Germany)
Little Lulu Show (The)	52x30min	20.9	Golden Books Family Entertainment (U.S.), TMO (Germany)
Wombles (The)	26x10min	4.6	HTV (U.K.)
• **New Productions**			
MumbleBumble	26x5min	1.6	Egmont Imagination (Denmark)
Patrol 03	26x30min	2.5	France Animation
Ripley's Believe It or Not!	13x30min	4.3	Alphanim (France)
• **In development**			
Dazzle			Sony Music (U.S.)
Journey Through Internia (IC Shadow)			Protecrea (France)
Mona the Vampire			Alphanim (France), The Farnham Film Company (U.K.)
Trotter Squadron			Scottish Television Entreprises (Scotland)
LIVE ACTION SERIES			
• **1997 Productions**			
Space Cases	26x30min	13.4	MTV Networks (U.S.)
WIMZIE'S HOUSE	112x30min	17.2	Société Radio-Canada, Télé-Québec (Canada)
• **On-going Productions**			
Are You Afraid of the Dark ?	78X30min	33.2	MTV Networks (U.S.)
Emily of New Moon	39X1 hr	20.7	Salter Street Films, WIC Entertainment (Canada)
Lassie	52x30min	31.5	Golden Books Family Entertainment (U.S.), PolyGram Filmed Entertainment (U.K.)
• **New Productions**			
Mystery Files of Shelby Woo (The)	20X30min	11.0	MTV Networks (U.S.)
Sci-Squad	13X30min	3.6	KCTS Seattle (U.S.)
• **In development**			
Girlhood Journeys			
Normal			Global (Canada)
FAMILY FILMS			
• **1997 Productions**			
Best Bad Thing (The)	1x90min	3.2	WQED Pittsburgh (U.S.), NHK (Japan)
• **New Productions**			
Sally Marshall is Not an Alien	1x90min	1.2	Infinity Pictures (Australia)
Un hiver de tourmente	1x90min	1.0	Image & Compagnie (France)
• **In development**			
Revenge of the Land			Bernard Zukerman Productions (Canada)
MINISERIES			
• **1997 Productions**			
Sleep Room (The)	2x2 hr	9.3	Bernard Zukerman Productions (Canada)
	TOTAL:	**276.2**	

* CINAR budget does not include Co-producers' s

:1997 productions :On-going productions

e-sales	Episodes delivered (fiscal 97)	Episodes in production	Episodes in pre-production	Deliveries scheduled in 1998-99
wtime, Nickelodeon (U.S.), Family Channel (Canada), Fuji (Japan), EBS (Korea), RAI (Italy), BBC (U.K.)	53-65			
(U.K.)	1-13			
(U.K.), TF1, Canal J (France), TELETOON (Canada), HBO (U.S.)	1-3	4-26		4-26
ETOON (Canada), Fox Family (U.S.), ZDF (Germany), Animation Services (Hong Kong)	1-2	3-26		3-26
, Random House (U.S.), Kirch Group (Germany), BBC (U. K), France 2, AKOM (Korea)	31-40	41-50	51-65	41-65
dren's Channel (U.K.)		66-130		66-130
ETOON (Canada)	1-45	46-65		46-65
Entertainment, TVO (Canada), France 3, Canal J (France), HBO (U.S.)	2-26	27-52		27-52
al J, France 2 (France)	25-41	42-52		42-52
h Group (Germany), HBO (U.S.), CTV, Family Channel (Canada), Wang Film Productions (Taiwan)	14-26		27-52	27-52
(U.K.), TVO (Canada)	1-4	5-13	14-26	5-26
adian Broadcasting Corporation		1-26		1-26
		1-26		1-26
nce 3 (France), Family Channel (Canada), Fox Family (U.S.), Animation Services (Hong Kong)		1-13		1-26
(France)				
(France), YTV (Canada), Animation Services (Hong Kong)				
nily Channel (Canada), Nickelodeon (U.S.)	17-26			
ciété Radio-Canada, Télé-Québec, Canadian Broadcasting Corporation (Canada), RTL (Germany), Channel 5 (U. K), Canal J (France)	103-112			
kelodeon (U.S.), YTV, Family Channel (Canada)			66-78	66-78
C Entertainment, Canadian Broadcasting Corporation (Canada)	1-17	18-26	27-39	18-39
imal Planet (Discovery Communications) (U.S.), YTV (Canada)	5-26	27-52		27-52
ckelodeon (U.S.)			1-20	1-20
scovery Channel (U.S.), TVO (Canada)			1-13	1-13
S (U.S.), NHK (Japan), ZDF (Germany)	1x90min			
		1x90min		1x90min
ciété Radio-Canada, France 2		1x90min		1x90min
nadian Broadcasting Corporation				
anadian Broadcasting Corporation, Société Radio-Canada	2x2h			
	192 half-hours	212 half-hours	119 half-hours	344 half-hours

v productions :In development

Corporate Information

Senior management

Micheline Charest
Chairman and CEO

Ronald A. Weinberg
President

Hasanain Panju
Chief Financial Officer

Marie-Josée Corbeil
Vice-President
and General Counsel

François Deschamps
Vice-President,
CINAR Studios

David Ferguson
Vice-President, CINAR
Europe and Managing
Director, FilmFair

Louis Fournier
Vice-President,
Distribution and Marketing

Patricia Lavoie
Vice-President,
Live-Action Production
and Development

Andrew Porporino
Vice-President, Finance-
Production

Cassandra Schafhausen
Vice-President,
Animation Production
and Development

Lesley Taylor
Vice-President,
CINAR Animation
Vice-President, Operations

Stephen T. Carson
President,
Carson-Dellosa

Patricia L. Carson
Vice-President,
Carson-Dellosa

Janet B. Dellosa
Vice-President,
Carson-Dellosa

Board of Directors

Micheline Charest
Chairman and CEO,
CINAR Films Inc.

Ronald A. Weinberg
President,
CINAR Films Inc.

Hasanain Panju
Chief Financial Officer
CINAR Films Inc.

Marie-Josée Corbeil
Vice-President
and General Counsel,
CINAR Films Inc.

Pierre H. Lessard
President and CEO,
Métro-Richelieu

Ray McManus
President,
CAFA Financial Corporation

Stephen F. Reitman
Executive Vice-President
Reitmans (Canada) Ltd.

Lawrence P. Yelin
Partner,
Martineau Walker

Stock information

ME and TSE: CIF.A, CIF.B
Nasdaq: CINRF

Number of shares outstanding at
Nov. 30, 1997

Class A:	3 233 196
Class B:	13 025 799
	16 258 995

Stock transfer agent and registrar

Montreal Trust
Place Montreal Trust
1800 McGill College Avenue
Montréal (Québec)
H3A 3K9

External legal counsel

Martineau Walker

Bankers

Royal Bank of Canada

Auditors

Ernst and Young

Vous pouvez obtenir une version française de ce rapport annuel en communiquant avec la Société à l'adresse suivante :

CINAR Films Inc.
1055, boul. René-Lévesque Est
Montréal (Québec)
H2L 4S5
Tel.: (514) 843-7070
Fax: (514) 843-7080

www.cinar.com

Management's Discussion and Analysis of Financial Condition and Results of Operations

Fiscal 1997 Compared to Fiscal 1996

All forward-looking information contained in this Management Discussion and Analysis of Financial Condition and Results of Operations is based on management's current knowledge of factors affecting CINAR's business. CINAR's actual results may differ materially if these assumptions prove invalid. Several of the significant risk factors are included and discussed herein, however this analysis does not constitute an exhaustive account of potential risks.

Revenues

Revenues for fiscal 1997 reached $93.7 million, an increase of 62% over the $57.9 million realized during fiscal 1996. This increase can be attributed to CINAR attaining its highest production levels to date, as well as the continued expansion of revenues derived from library sales. These two sources of revenue combined to generate $76.7 million in fiscal 1997. In addition, revenues were boosted by CINAR's holdings in the Carson-Dellosa Group, acquired on July 29, 1997, which contributed $13.0 million (US$9.3 million) of sales over the four months subsequent to its acquisition.

Production continues to be the primary source of revenue growth for CINAR, representing 60% of total revenues (including new Carson-Dellosa Group revenues). During fiscal 1997, library sales increased to $20.6 million, a 48% increase over fiscal 1996, and now represent 27% of total production revenues. As CINAR continues to accumulate more episodes in its film library, revenues from this source will continue to grow at accelerated rates. In addition, the film library has provided CINAR with an avenue to exploit other means of revenue generation, namely music, video and merchandising revenues. These three sources accounted for $1.3 million (1996 – $0.9 million), $2.6 million (1996 – $2 million) and $0.6 million (1996 – $0.145 million) of revenue, respectively, in fiscal 1997 and offer considerable growth potential as CINAR expands its film library.

The Company continues to grow its export sales through international co-productions which typically enhance revenue and profit derived from each project. In addition, the FilmFair acquisition at the end of fiscal 1996 has allowed the Company to strengthen its presence overseas and pursue international growth more aggressively. Over the past year, international production revenues increased by 39% to $40.6 million. This increase can be attributed to a 10% increase in United States revenues to $19.0 million, as well as a 79% increase in revenues to $21.5 million from the rest of the world. International production levels continue to represent over 50% of total production revenues and this trend is likely to continue in the foreseeable future.

The Company recognizes revenues from its production activities when a program is delivered to the broadcaster (see Note 2 in Financial Statements). This can result in the fluctuation of revenue flows, as production schedules are not spread evenly throughout the year. The Company has an impressive record of selecting properties which generate new series (a series typically contains 13 episodes), improving the stability of revenues and profitability.

During fiscal 1997, the company delivered 14 television series, 1 miniseries and 1 family film, as compared to 8 television series and 1 pilot during fiscal 1996. At year-end, the Company was completing 10 series: *The Adventures of Paddington Bear*™ (episodes 4-26), *Animal Crackers*® (episodes 3-26), *ARTHUR*™ (episodes 41-65), *Caillou*™ (episodes 46-65), *The Country Mouse and the City Mouse Adventures*™ (episodes 27-52), *Ivanhoe, the King's Knight*™ (episodes 42-52),

The Little Lulu Show™ (episodes 27-52), *The Wombles®* (episodes 5-26), *Emily of New Moon™* (episodes 18-39) and *Lassie™* (episodes 27-52) and 2 Family Films, *Un Hiver de Tourmente* and *Sally Marshall is Not an Alien*.

CINAR's production revenues include government funding, which represented 24% of total revenues in 1997. This source of revenue has remained stable since 1996.

Cost of Sales

The cost of sales represents the amortization of CINAR's own programs. As the programs are delivered, costs are amortized against revenue, thus ensuring representative profit margins from year to year on any particular program (see Note 2 in Financial Statements). Cost of sales was $62.9 million in 1997 compared to $42.4 million in 1996, an increase of 48%. CINAR also enjoyed a significant increase in gross margin from 27% in 1996 to 33% in 1997, largely due to the continued expansion of its library sales, which carry substantially lower costs, and the Carson-Dellosa acquisition, which brought a new, distinct cost structure to the consolidated financial statements.

Expenses

Selling and administrative expenses increased by 148% to $7.2 million from $2.9 million in 1996. This increase is due mainly to the addition of the Carson-Dellosa Group, which operates from a significantly different cost structure than CINAR, and contributed $3.8 million to 1997 selling and administrative expenses. The balance of $3.4 million represents only a 17% increase over 1996, well below the corresponding increase in production revenues of 39%. This cost savings has been achieved as a result of management's commitment to control overhead costs. Interest expense increased by $1.4 million in 1997 compared to 1996, mainly due to the financing used for the acquisition of the Carson-Dellosa Group. In previous years, interest expense had been negligible due to the Company's relatively debt free balance sheet.

Income Taxes

The Company's effective income tax rate for fiscal 1997 was 32% compared to 28% in 1996. This increase was mainly due to higher income tax rates in Canada, resulting from the reduced impact of the manufacturing and processing tax credit in the current taxation year and the addition of the Carson-Dellosa Group which is taxed at a higher U.S. corporate tax rate of 41%. In 1997, the Company used an additional 20% of the tax reduction for the gift of Canadian cultural property donated in 1996, which partially offset the effects of the higher tax rates. The Company now has 57% of the tax-benefit to carry forward to subsequent years.

Net Earnings

Net earnings reached $12.9 million ($0.96 per share) in fiscal 1997, a 52% increase over the $8.5 million ($0.78 per share) posted in fiscal 1996. This continued growth can be ascribed to CINAR's increased production slate, the exploitation of the Company's growing film library, the addition of the new educational product line acquired through the Carson-Dellosa acquisition and management's tight control of overhead costs. Management expects CINAR's earnings growth to continue, as the full synergistic effects of the Carson-Dellosa acquisition have yet to be realized. In addition, early indications suggest that TELETOON, a cable broadcasting venture in which CINAR owns a 20% interest, has met with much success and could emerge as a vital component of CINAR's business.

Earnings per share were calculated on a weighted average number of shares of 13,369,341 in 1997 and 10,912,043 in 1996. The increase in the weighted average number of shares is mainly due to the full effect of the July 1996 U.S. public offering of 2,330,000 Subordinate Voting Shares and the partial effect of the September 1997 public offering of 3,050,000 Subordinate Voting Shares.

Liquidity and Capital Resources

Financial Position
(in thousands of dollars)

	1997	1996	Change
Cash Flow from Operations	18,772	11,671	+61%
Working Capital	231,965	97,733	+137%
Total Debt	42,143	2,771	+1421%
Shareholders' Equity	299,257	123,976	+141%

Working Capital

Working capital at the end of fiscal 1997 was $232.0 million, a 137% increase over the $97.7 million at the end of 1996, largely due to the U.S. public issue completed in September 1997. Film costs stood at $43.9 million at the end of fiscal 1997, 3% higher than 1996, as a result of CINAR's continued commitment to increase its production activities. The film-cost balance at November 30, 1997 includes expenses incurred on the aforementioned 12 productions that were in process at the balance sheet date. Distribution revenues received on these productions prior to delivery are included in deferred revenues and will be realized when these productions are complete and delivered. The Company anticipates that total production expenses, including expenses related to the completion of the above-mentioned productions, will be in excess of $125 million in 1998.

The Company is satisfied with its current cash flow situation, as it feels that, along with cash generated from operations and its existing credit facilities, cash on hand will be adequate to meet its short-term liquidity needs. This liquidity, coupled with its solid reputation in financial markets, will allow the Company to continue to pursue profitable growth and take advantage of any future opportunities that may arise.

Capital Expenditures

During fiscal 1997, the Company had capital expenditures of $1.3 million, compared to $3.6 million in fiscal 1996. This decrease in capital expenditures can be explained by the absence of large, non-recurring capital expenditures such as those incurred in 1996, when CINAR undertook a major expansion and renovation of its post-production studios and relocated its administrative offices. Capital expenditures for fiscal 1998 are estimated at $1.5 million and will primarily involve the acquisition of new sound, editing and post-production equipment.

In July 1997, Cinar acquired the Carson-Dellosa group of companies for a cash consideration of $33,917,000 (US$24,500,000) and 465,285 subordinate voting shares valued at $22,150,000. This acquisition has added a new dimension to CINAR allowing it to expand from a producer and distributor of children's television programming to a multi-faceted entertainment and education company. CINAR is optimistic that the synergistic potential of the two businesses will allow the Company to capitalize more fully on ancillary rights related to their properties, by introducing complementary product lines. This increased usage of ancillary rights should allow CINAR to maximize gross margins and net earnings by generating more revenue per development dollar.

During the year, CINAR continued to broaden its scope by investing in TELETOON, an all-animation cable channel. In addition to having a 20% equity share in the venture, CINAR has an agreement to provide the cable channel with up to 25% of its programming. This creates a dual opportunity for the

Company – it has a new customer for its productions within the Canadian market and can also benefit from the potential success of the cable channel itself.

Risks and Uncertainties

The television production and distribution industry is competitive and involves risk. To reduce this risk, the Company will continue its conservative approach to financing its productions by ensuring that agreements are in place for revenues that exceed at least 80% of the costs of each project, prior to commencing production.

The Carson-Dellosa Group competes with a number of other companies in the supplemental educational market, many of which have greater financial and marketing resources than CINAR and its subsidiaries.

The Company benefits from government financing programs, which could be changed or modified in the future. In recent years, modifications to these programs have not materially affected CINAR's operations or financial results.

Export sales are customarily paid in U.S. currency, which may be affected by fluctuations in the exchange rate of the US dollar. This risk is partially reduced since a portion of the Company's accounts payable are also denominated in US dollars. The Company utilizes foreign-exchange contracts, when necessary, to hedge the potential risk associated with the portion of revenues still exposed to these fluctuations. At November 30, 1997, the Company had no contracts outstanding.

Impact of the Year 2000 Issue

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer programs that have date-sensitive software may recognize a date using '00' as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in other normal business activities.

To date, the Company has made an assessment of the potential impact of the Year 2000 issue on its own operations. While no formal plan of action has yet to be adopted, management is in the process of evaluating several external solutions to the problem. The Company plans to finalize a solution to this problem during the current fiscal year to curtail any possible ramifications of the Year 2000 issue.

Outlook

Over the next several years, CINAR will continue to focus on the creation, production and worldwide distribution of its in-house properties. In addition, the Company will continue to expand the use of its ancillary rights through its educational products, music and video rights, as well as through new channels of distribution. With its extensive repertoire of film properties, its strong international positioning and its solid financial condition, CINAR is poised to maintain its sound reputation and pursue its strategy of growth and profitability.

Fiscal 1996 Compared to Fiscal 1995

CINAR's revenues for fiscal 1996 reached $57.9 million compared with $42.1 million for fiscal 1995. This increase of 38% resulted from greater production of the Company's own programs, and from library sales, which together, generated $55.3 million in fiscal 1996.

Production is the principal source of revenue growth, representing 72% of total revenues. However, library sales, the second major source of revenue growth, are increasing at an accelerated rate. In 1996, library sales increased by 54% to $13.9 million (24% of total revenues) improving net margins. CINAR's gross profit margin improved to 27% from 25% in fiscal 1995 resulting from the significant growth of library sales which carry a lower cost.

The Company continues to grow its export sales through international co-productions which increase revenue and profit on each project. In the past year international production revenues grew by 31% to $29.3 million. Revenues in the United States increased from $13.2 million in 1995 to $17.2 million in 1996 and in the rest of the world from $9.2 million in 1995 to $12.0 million in 1996. International production revenues continue to represent over 50% of total revenues and will likely remain at this level.

The Company recognizes revenues from its production activities when a program is delivered. (See Note 2 in Financial Statements). Production schedules tend to overlap and, as a result, revenue flow will fluctuate during the year as productions are delivered. While animated productions can take 12 to 18 months to complete, live action productions typically require a much shorter production cycle. For this reason, the Company's record of selecting properties which continue to generate new series (a series typically contains 13 episodes) improves the stability and profitability of its results.

During fiscal 1996, the Company delivered 8 television series and 1 pilot compared to 7 television series, 1 pilot and 2 family films in 1995. At year-end, the Company was completing 9 series: *The Busy World of Richard Scarry™* (episodes 53-65), *WIMZIE'S HOUSE™* (episodes 103-112), *ARTHUR™* (episodes 31-40), *Space Cases™* (17-26), *The Little Lulu Show™* (episodes 14-26), *Lassie™* (episodes 5-26), *Ivanhoe, the King's Knight™* (episodes 25-52), *The Country Mouse and the City Mouse Adventures™* (episodes 2-26) and *Emily of New Moon™* (episodes 7-13) and 1 family film, *The Best Bad Thing*. Revenues from these ten programs will be recognized when they are delivered in fiscal 1997.

CINAR's 1996 production schedule consisted of 79 half-hour episodes of animated programming, with 83% of the 1996 series continuing in 1997. The 1996 live action production schedule consisted of 92 half-hour episodes, with 100% of the 1996 series continuing in 1997. Live action productions have broadened the Company's market and attracted new financial partners. CINAR's revenues include government funding. As a percentage of revenues, government funding has remained relatively stable at 24% in 1996. Due to a greater emphasis on the production of the Company's own programs, distribution and repackaging of programs for third parties accounted for only 4.6% of the Company's activities in 1996, compared with 5% in 1995.

Cost of Sales

The cost of sales represents the amortization of CINAR's own programs as well as the direct costs of providing services to third parties. As the programs are delivered, costs are amortized against revenue, thus ensuring stable profit margins from year to year on any particular program. (See Note 2 in Financial Statements). Cost of sales was $42.4 million in 1996 compared to $31.6 million in 1995, a 34% increase.

Expenses

Selling and administrative expenses increased by 19% to $2.9 million from $2.4 million in 1995, due to growth in the Company's activities. However, as a percentage of total revenues, selling and administrative expenses decreased from 6% to 5%. Revenues are growing faster than expenses, as a result of tight management controls and the growth in library sales. Interest expense remained stable at $38,000 in 1996, compared to $44,000 in 1995. Interest expense remained low due to the Company's relatively debt free balance sheet.

EBITDA

Earnings before interest, income taxes, depreciation and amortization increased by 56% from $8.1 million in 1995 to $12.6 million in 1996, largely as a result of the growth in production and library sales.

Income Taxes

The Company's effective income tax rate for fiscal 1996 was 28% compared to 31% in 1995. This reflected a tax-deductible gift of Canadian cultural property that the Company made during the current year which decreased the tax rate by 5%. In 1996, the Company utilized 23% of this tax reduction, the balance of which will be carried forward to future years.

Net Earnings

Net earnings increased by 61% in fiscal 1996 to $8.5 million ($0.78 per share) from $5.3 million ($0.59 per share) in the previous year. Excluding the impact of the gift to Canadian cultural property mentioned above, net earnings increased by 50% in fiscal 1996 to reach $7.9 million ($0.72 per share). This growth in net earnings is primarily attributable to CINAR's focus on the production of original programming, the increase and diversification in library sales, and the Company's tight control of overhead.

Earnings per share were calculated on a weighted average number of shares of 10,912,043 in 1996 and 8,843,483 in 1995. The increase in the weighted average number of shares is due to the full effect of the 1995 U.S. public offering of 2,575,000 Subordinate Voting Shares and the partial effect of the July 1996 public offering in the U.S. of 2,330,000 Subordinate Voting Shares.

Cash Flow

Cash flow from operations increased by 74% to $11.7 million in 1996 from $6.7 million in 1995 mainly due to the increase in net earnings.

Auditors' Report

To the Shareholders of
Cinar Films Inc.

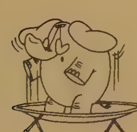
We have audited the consolidated balance sheets of Cinar Films Inc. as at November 30, 1997 and 1996 and the consolidated statements of retained earnings, earnings and changes in financial position for each of the years in the three year period ended November 30, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended November 30, 1997 in accordance with accounting principles generally accepted in Canada.

Ernst & Young
Chartered Accountants

Montréal, Canada,
February 6, 1998.



Consolidated Balance Sheets

As at November 30 (In thousands of Canadian dollars)	1997 $	1996 $
ASSETS		
Current		
Marketable securities [note 3]	169,345	49,952
Accounts receivable [net of allowance for doubtful accounts, $1,892; 1996 — $278]	45,282	14,261
Income taxes refundable	—	499
Tax credits refundable	23,822	12,505
Inventories [note 4]	5,917	—
Film costs [note 5]	43,949	42,659
Total current assets	288,315	119,876
Acquired film libraries	22,645	23,738
Fixed assets [note 7]	5,794	4,436
Goodwill	60,547	—
Other assets [note 8]	1,026	522
	378,327	148,572

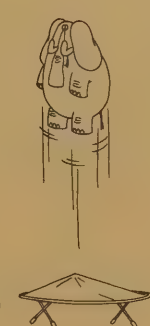
As at November 30 [In thousands of Canadian dollars]	1997 $	1996 $
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank indebtedness [note 9]	11,928	2,626
Trade payables	5,440	1,454
Accrued liabilities	11,182	4,509
Income taxes payable	1,889	—
Deferred revenue	16,898	13,767
Current portion of long-term debt	7,495	—
Deferred income taxes	1,518	2,240
Total current liabilities	56,350	24,596
Long-term debt [note 10]	22,720	—
Total liabilities	79,070	24,596
Contractual obligations [note 16]		
Shareholders' equity		
Capital stock [note 11]		
Issued and outstanding		
3,233,196 Class A and 13,025,799 Class B shares [1996 — 3,305,271 Class A and 9,334,564 Class B shares]	263,391	101,610
Cumulative translation adjustment	629	—
Retained earnings	35,237	22,366
Total shareholders' equity	299,257	123,976
	378,327	148,572

See accompanying notes

On behalf of the Board:

Director

Director



Consolidated Statements Of Retained Earnings

As at November 30 (In thousands of Canadian dollars)	1997 $	1996 $	1995 $
Balance, beginning of year	22,366	13,905	8,648
Net earnings for the year	12,871	8,461	5,257
Balance, end of year	35,237	22,366	13,905

See accompanying notes

Consolidated Statements Of Earnings

As at November 30 [In thousands of Canadian dollars]	1997 $	1996 $	1995 $
Revenues [note 13]	93,678	57,935	42,107
Cost of sales	62,869	42,423	31,600
Gross margin	30,809	15,512	10,507
Expenses			
Selling, general and administrative	7,213	2,919	2,445
Amortization of acquired film libraries	1,191	—	—
Depreciation and amortization of fixed assets	1,375	852	455
Amortization of goodwill	660	—	—
Interest	1,475	38	44
	11,914	3,809	2,944
Earnings before income taxes	18,895	11,703	7,563
Provision for income taxes [note 14]	6,024	3,242	2,306
Net earnings for the year	12,871	8,461	5,257
Earnings per Class A and Class B share [note 15]			
basic	$0.96	$0.78	$0.59
fully diluted	$0.91	$0.74	$0.57
Weighted average number of Class A and Class B shares outstanding	13,369,341	10,912,043	8,843,483

See accompanying notes

Consolidated Statements Of Changes In Financial Position

As at November 30 [In thousands of Canadian dollars]	1997 $	1996 $	1995 $
OPERATING ACTIVITIES			
Net earnings for the year	12,871	8,461	5,257
Items not affecting cash:			
Depreciation and amortization	3,226	852	455
Deferred income taxes	2,675	2,358	1,004
	18,772	11,671	6,716
Increase in accounts receivable	(12,684)	(8,656)	1,341
Increase in tax credits refundable	(11,317)	(6,641)	(1,561)
Increase in inventories	(72)	—	—
Increase in film costs	(1,290)	(13,161)	(5,781)
Increase in trade payables and accrued liabilities	4,432	2,723	703
Increase in deferred revenue	3,131	280	4,091
Other	(1,934)	(835)	(44)
Cash provided by (used in) operating activities	(962)	(14,619)	5,465
FINANCING ACTIVITIES			
Repayment of bank indebtedness assumed on acquisition	(17,303)	—	—
Increase in long-term debt	30,215	—	—
Issue of capital stock	167,262	70,293	25,163
Share issue costs	(8,878)	(4,536)	(3,690)
Cash provided by financing activities	171,296	65,757	21,473
INVESTING ACTIVITIES			
Business acquisition [note 6]	(57,499)	—	—
Additions to marketable securities	(119,393)	(26,179)	(23,773)
Acquisition of film libraries	(98)	(23,738)	—
Additions to fixed assets	(1,337)	(3,573)	(653)
Additions to goodwill	(285)	—	—
Cash used in investing activities	(178,612)	(53,490)	(24,426)
CUMULATIVE TRANSLATION ADJUSTMENT	(1,024)	—	—
Increase (decrease) in cash	(9,302)	(2,352)	2,512
Bank indebtedness, beginning of year	(2,626)	(274)	(2,786)
Bank indebtedness, end of year	(11,928)	(2,626)	(274)
Cash interest paid	693	38	44
Cash income taxes paid	1,571	2,363	1,203

See accompanying notes

Notes to Consolidated Financial Statements

November 30, 1997 and 1996
[In Canadian dollars]

1. Basis Of Presentation

The consolidated financial statements include the accounts of CINAR Films Inc. [the "Company"] and its subsidiaries, from the date of their acquisition or creation. These statements have been prepared in accordance with accounting principles generally accepted in Canada ["Cdn. GAAP"]. The Company's significant accounting policies conform in all material respects with accounting principles generally accepted in the United States ["U.S. GAAP"] except as described in note 18.

CINAR is an integrated entertainment company involved in the development, production, post-production and worldwide distribution of non-violent, quality programming for children and families. CINAR's programming is seen in the United States, Canada and in over 120 other countries around the world. CINAR is also involved in the exploitation of the ancillary rights to their properties including music, video and merchandising rights. A recent acquisition [see note 6] has made CINAR a presence in the supplemental education market, where it exploits the merchandising rights of both its own and acquired properties, through the production and distribution of educational materials.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates used by management in the preparation of these financial statements relate to the accounting for film costs [see note 2].

Certain figures in the 1996 financial statements have been reclassified to conform with the basis of presentation used in 1997.

2. Accounting Policies

(a) Inventories

Inventories consist primarily of finished printed educational materials and science kits and are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(b) Film costs

Production costs are capitalized and carried as film costs at the lower of cost and net realizable value. The individual film forecast method is used to amortize film costs based on the proportion that gross revenues realized bear to management's estimate of the total gross revenues expected to be received. Revenue estimates on a film-by-film basis are reviewed periodically by management and are revised if warranted, based on management's appraisal of current market conditions. Where applicable, unamortized costs are written down to net realizable value based on this appraisal. Amortization of film costs and write-downs, when taken, are included in cost of sales. The Company also has an interest in productions which have been fully amortized in prior years and have not been valued in these financial statements.

2. Accounting Policies [Cont'd]

(c) Amortization of acquired film libraries

Film libraries are amortized on the straight-line basis over a period of twenty years. On a quarterly basis, management reviews their carrying value by evaluating undiscounted expected cash flows. Film libraries are written down to their estimated net realizable value when a permanent decline is identified. As at November 30, 1997, no such write-down have been deemed necessary.

(d) Depreciation and amortization of fixed assets

Fixed assets are depreciated on the diminishing balance basis at the following rates:

Furniture and fixtures	20%
Equipment	30%
Computer equipment	30%

Leasehold improvements are amortized on the straight-line basis over the terms of the leases.

(e) Amortization of goodwill

Goodwill represents the excess of acquisition costs over the fair value of the net assets of acquired businesses and is being amortized on the straight-line basis over a period of thirty years. On a quarterly basis, management reviews its carrying value by evaluating undiscounted expected cash flows. Goodwill is written down to its estimated net realizable value when a permanent decline is identified. As at November 30, 1997, no such write-down has been deemed necessary.

(f) Revenue recognition

The Company recognizes revenue when a television program is accepted by the licensee and there is reasonable assurance of collection of the proceeds. Amounts received prior to a program's availability are recorded as deferred revenue. With respect to sales of productions to limited partnerships, the Company recognizes as revenue only the net benefit to it from such sales. Revenues based on production expenditures are recognized as earned. Revenues derived from the sale of inventoried products are recognized at the time of shipment.

(g) Income taxes

CINAR follows the tax allocation method of accounting for income taxes. Under this method, income tax expense is calculated on the basis of earnings as reported in the statement of earnings rather than on the Company's taxable income.

(h) Foreign currency

Assets and liabilities of the Company's foreign subsidiaries classified as integrated and foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at the exchange rate in effect at the balance sheet date for monetary items and at exchange rates in effect at the transaction date for non-monetary items. Revenues and expenses are translated at average rates prevailing during the year, except for amortization of film costs and goodwill and depreciation and amortization of fixed assets, which are translated at exchange rates prevailing when the related assets were produced or acquired. Gains and losses arising from the fluctuations in exchange rates are reflected in net earnings for the year except for gains and losses related to long-term monetary items which are deferred and amortized over the remaining term to maturity.

2. Accounting Policies [Cont'd]

The Company's foreign subsidiaries classified as self-sustaining are translated using the current rate method, whereby the assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rate for the year. Translation gains and losses are deferred and included as a separate component of shareholders' equity.

3. Marketable Securities

Marketable securities [18% of which are denominated in Canadian dollars and 82% in U.S. dollars] consist of high investment grade debt securities and are carried at cost which approximates market value. The portfolio includes one 11% debt security [effective yield – 8.44%] which makes up 17% of the portfolio and matures in 2011. The balance of the portfolio is invested in debt securities, none of which exceeds 10% of the portfolio, with an average effective yield of 6.98% and maturities of 1 to 105 days.

4. Inventories

[In thousands]	1997 $	1996 $
Finished goods	4,921	—
Work-in-process	996	—
	5,917	—

5. Film Costs

[In thousands]	1997 $	1996 $
Released	26,580	23,523
In process	17,369	19,136
	43,949	42,659

6. Acquisitions

(a) On July 29, 1997, the Company acquired 100% of the shares of Carson-Dellosa Publishing Company Inc., The Wild Goose Company and Unique Collating Service Inc. ["the Carson-Dellosa Group"], for U.S. $40,500,000. These companies, located in Greensboro, North Carolina and Salt Lake City, Utah, are publishers, manufacturers and distributors of specialty supplies and classroom instructional materials directed primarily to the pre-school to sixth grade supplemental education market. The transactions were accounted for as a purchase and can be summarized as follows:

6. Acquisitions [Cont'd]

[in thousands]	CDN $	US $
Assets acquired:		
Accounts receivable	18,337	13,246
Inventories	5,845	4,222
Fixed assets	1,396	1,008
Goodwill	59,269	42,813
	84,847	61,289
Liabilities assumed:		
Bank indebtedness	(17,303)	(12,499)
Accounts payable	(6,227)	(4,498)
Other	(3,818)	(2,758)
	(27,348)	(19,755)
Net assets	57,499	41,534
Purchase Price:		
Cash	33,917	24,500
465,285 Class B shares	22,150	16,000
	56,067	40,500
Costs of acquisition	1,432	1,034
	57,499	41,534

Pro forma revenues, net earnings and earnings per share, had the results of operations of the acquired businesses been included from December 1, 1995, would have been $120,042,000 [1996 – $91,213,000], $13,763,000 [1996 – $9,177,000] and $1.01 [1996 – $0.81] per share, respectively.

(b) On November 26, 1996, the Company acquired exploitation rights and various film libraries for £10,500,000. The purchase price was paid with cash of $15,526,000 [including expenses of acquisition of $227,000] and by the issue of 272,500 Class B shares with a market value of $8,212,000.

7. Fixed Assets

[in thousands]	Cost $	Accumulated depreciation $	Net $
1997			
Furniture and fixtures	2,965	760	2,205
Equipment	5,189	3,379	1,810
Computer equipment	1,118	701	417
Leasehold improvements	2,776	1,414	1,362
	12,048	6,254	5,794
1996			
Furniture and fixtures	1,173	465	708
Equipment	4,540	2,809	1,731
Computer equipment	998	548	450
Leasehold improvements	2,604	1,057	1,547
	9,315	4,879	4,436

8. Other Assets

(In thousands)	1997 $	1996 $
Non-interest bearing demand loans to employees to purchase houses for their own occupancy, due over the period to 2004 and collateralized by pledges of the houses	426	472
Investment in animation cable channel, accounted for by the cost method, representing 10% of a company which will operate the channel. The Company has exercised an option to acquire an additional 10% of the company for $200,000, subject to regulatory approval	400	50
Non-interest bearing working capital loan to the animation cable channel	200	—
	1,026	522

9. Bank Indebtedness

The Company has operating lines of credit totalling $79,000,000 including $17,000,000 denominated in U.S. funds, which are collateralized by charges on all the assets of the Company. Amounts drawn under these lines are payable on demand and bear interest at rates varying from prime bank rate [5.5% at November 30, 1997] to prime plus 0.5%.

10. Long-Term Debt

Long-term debt consists of a term loan in the amount of $30,215,000, bearing interest at 4.02% per annum, repayable on a quarterly basis over the period to August 31, 2002. On February 6, 1998, the loan was repaid in full.

11. Capital Stock

Authorized

As at November 30, 1994, the Company's authorized capital consisted of an unlimited number of:

- Non-voting Preferred Shares, issuable in series, the characteristics of which are to be determined by the Board of Directors;
- Common shares.

On April 4, 1995, the Company amended its Articles of Incorporation to [a] authorize an unlimited number of Multiple Voting Shares entitled to ten votes per share and an unlimited number of Subordinate Voting Shares entitled to one vote per share, [b] convert each previously issued and outstanding Common Share into one-half of one Multiple Voting Share and one-half of one Subordinate Voting Share and [c] cancel the existing class of Common Shares.

As a result, the authorized capital of the Company at November 30, 1995, and throughout the 1996 and 1997 fiscal periods is as follows:

An unlimited number of:

- Non-voting Preferred Shares, issuable in series, the characteristics of which are to be determined by the Board of Directors;
- Class A shares entitled to ten votes per share;
- Class B shares entitled to one vote per share.

The Class A and Class B shares are mandatorily or optionally convertible one into the other under certain conditions, on a one-for-one basis.

Issued

	Common	Class A	Class B	$
Balance, November 30, 1994	7,217,135	—	—	12,056,000
Issue pursuant to the exercise of options	12,000	—	—	66,000
Conversion of Common Shares	(7,229,135)	3,614,561	3,614,574	—
Issue pursuant to the prospectus dated April 7, 1995 less issue costs [net of income taxes of $872,000]	—	—	2,575,000	21,969,000
Issue pursuant to the exercise of options	—	28,050	28,350	310,000
Conversions from Class A to Class B	—	(380,715)	380,715	—
Balance, November 30, 1995	—	**3,261,896**	**6,598,639**	**34,401,000**
Issue pursuant to the prospectus dated July 3, 1996 less issue costs [net of income taxes of $1,452,000]	—	—	2,330,000	57,166,000
Issue pursuant to the acquisition of film libraries	—	—	272,500	8,212,000
Issue pursuant to the exercise of options	—	43,375	133,425	1,831,000
Balance, November 30, 1996	—	**3,305,271**	**9,334,564**	**101,610,000**
Issue pursuant to the prospectus dated September 29, 1997 less issue costs [net of income taxes of $3,397,000]	—	—	3,050,000	137,624,000
Issue pursuant to the acquisition of the Carson-Dellosa Group	—	—	465,285	22,150,000
Issue pursuant to the exercise of options	—	2,325	101,550	2,007,000
Conversions from Class A to Class B	—	(74,400)	74,000	—
Balance, November 30, 1997	—	**3,233,196**	**13,025,799**	**263,391,000**

11. Capital Stock [Cont'd]

Employee stock option plan

The maximum number of Class B shares which have been authorized for the granting of options is 1,250,000. As at November 30, 1997, the following options are outstanding:

Number of options		Exercise price	Expiry date
Class A	**Class B**		
6,775	750	$ 5.50	September 1, 1998
—	172,950	$13.00	July 11, 2000
—	7,500	$16.38	October 2, 2000
—	102,350	$22.00	April 28, 2001
—	20,000	$29.00	July 29, 2001
—	136,950	$34.00	December 29, 2001
—	90,300	$32.00	May 14, 2002
—	214,800	$46.00	September 8, 2002
210,000	210,000	$ 5.50	September 1, 2003
216,775	955,600		

Share transfer restriction

The directors of the Company have the right to refuse to register a transfer of any shares in the capital of the Company that may, in their opinion, adversely affect the status of the Company or any of its subsidiaries as an eligible Canadian corporation under the broadcast licensing provisions of Canadian government legislation or regulation. In this connection, the directors may require any person who requests a registration of shares to submit a declaration setting out certain information including the name of the beneficial owner of the shares and his or her Canadian status.

12. Financial Instruments

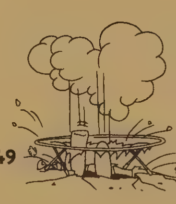
On November 30, 1997, the fair value of the Company's long-term debt was $29,041,000. Fair value is determined based on expected future cash flows, discounted at market interest rates, and other appropriate valuation methodologies.

The market values of all of the Company's other financial assets and liabilities were approximately equal to their carrying value at November 30, 1997 and 1996.

13. Revenues

Revenues include the following:

[In thousands]	1997 $	1996 $	1995 $
Federal refundable tax credits	**5,856**	3,693	—
Quebec refundable tax credits	**10,746**	8,531	5,863
Government production investments	**6,043**	876	2,991
Net benefit of sales to limited partnerships	**68**	828	1,060



14. Provision For Income Taxes

Variation in income tax rate

	1997 %	1996 %	1995 %
Combined basic Canadian federal and provincial income tax rate	**36.9**	36.9	36.9
Increase (decrease) in the income tax rate resulting from:			
Manufacturing and processing profits deduction	**(1.1)**	(6.0)	(7.3)
Income tax surcharge	**1.4**	1.1	1.1
Gift of Canadian cultural property	**(3.4)**	(5.1)	—
Miscellaneous	**(1.9)**	0.8	(0.2)
	31.9	27.7	30.5

15. Earnings Per Share

Earnings per share has been calculated after giving retroactive effect to the reorganization of share capital described in note 11.

Fully diluted earnings per share is calculated based on the weighted average number of shares that would have been outstanding had all of the stock options outstanding at the year-end been converted into Class A and Class B shares on the later of the date of issuance and the beginning of the fiscal period. Interest of $426,000 [1996 – $251,000; 1995 – $338,000], net of income taxes, has been imputed at the rate of 4% [1996 – 5%; 1995 – 6%] per annum on the funds which would have been received had the options been exercised.

16. Contractual Obligations

The Company has agreed to make revenue guarantee payments to various limited partnerships pursuant to distribution contracts. Since under the terms of these contracts the Company intends to settle these obligations by setting off restricted cash balances of nil [1996 – $7,548,000] and certain receivables totalling $6,423,000 [1996 – $17,492,000] due from the partnerships, these amounts have been offset on the consolidated balance sheets.

The minimum rentals payable under long-term operating leases with third parties as well as a company owned by two of the Company's directors, exclusive of certain operating costs for which the Company is responsible, are as follows:

[In thousands]	Third Parties $	Related $
1998	1,304	1,054
1999	964	1,003
2000	852	989
2001	703	973
2002	462	728
2003	36	249
2004	—	249
	4,321	5,245

16. Contractual Obligations [Cont'd]

Rent expense included in selling, general and administrative expenses is as follows:

[In thousands]	1997 $	1996 $
Third parties	419	369
Related	483	249

17. Segmented Information

Prior to the acquisition of the Carson-Dellosa Group [see note 6], the Company's dominant industry segment was the production of television programs. Since the acquisition, the Company now also participates in the United States education market. Results of 1997 operations for each segment are as follows:

[In thousands]	Production $	Education $	Total $
Revenues	80,689	12,989	93,678
Depreciation and amortization	2,402	824	3,226
Segment profit	17,783	1,112	18,895
Total assets	312,995	65,332	378,327
Capital expenditures	1,129	208	1,337

The production segment operates mainly in Canada and exports to the United States and other countries. Production revenues derived from export sales are as follows:

[In thousands]	1997 $	1996 $	1995 $
United States	**19,029**	17,236	13,231
Other	**21,522**	12,014	9,159
	40,551	29,250	22,390

18. Additional Disclosures Required Under U.S. GAAP

Effective December 1, 1994, the Company adopted, for U.S. GAAP purposes, Statement of Financial Accounting Standards Number 109, relating to the accounting for income taxes. The effect of this change on these financial statements is not material.

Deferred income tax liabilities under U.S. GAAP would comprise the following:

[In thousands]	1997 $	1996 $
Income tax deductions in excess of accounting expenses, as follows:		
Depreciation and amortization	**(109)**	166
Share issue costs	**(3,832)**	(1,775)
Film revenue recognition	**5,477**	4,074
Goodwill	**208**	—
Intercompany profit elimination	**(226)**	(225)
	1,518	2,240

In addition, under U.S. GAAP, the carrying value of the acquired film libraries as well as the deferred income tax liability would be increased by $3,674,000 [1996 – $3,868,000] and the statement of earnings would disclose advertising expense of $1,209,000 [1996 – nil] separately.

Significant components of the provision for income taxes are as follows:

[In thousands]	1997 $	1996 $	1995 $
Current			
Canadian federal	**1,226**	790	951
Provincial	**480**	94	351
Other	**246**	—	—
	1,952	884	1,302
Deferred			
Canadian federal	**2,941**	1,618	714
Provincial	**927**	740	290
Other	**204**	—	—
	4,072	2,358	1,004

With respect to the statement of changes in financial position, the change in bank indebtedness would be presented as a financing activity under U.S. GAAP. In addition, the portion of the acquisition price of acquired businesses, relating to the issue of shares, would be subtracted from the captions, "Issue of capital stock", "Acquisition of Carson-Dellosa Group" and "Acquisition of film libraries". Cash provided by financing activities would have been $158,448,000 [1996 – $59,897,000; 1995 – $18,961,000], and cash used in investing activities would have been $35,349,000 [1996 – $45,278,000; 1995 – $24,426,000].

Under U.S. GAAP, primary earnings per share and fully diluted earnings per share would be $0.93 in both instances.

Stock-based compensation

The U.S. Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation", is applicable for fiscal years commencing after December 15, 1995 and gives the option to either follow fair value accounting or Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ["APB No. 25"] and related interpretations.

The Company has elected to continue to follow APB No. 25 and related interpretations in accounting for its outstanding stock options in financial information prepared in conformity with U.S. GAAP.

In accordance with Canadian GAAP and U.S. GAAP [under APB No. 25], the Company does not recognize compensation expense for stock option grants in the statement of earnings as the market price of the underlying stock on the grant dates does not exceed the exercise price of the options granted.

In compliance with Statement No. 123, the pro forma net income and earnings per share, reflecting the potential effects of fair value accounting for stock options, are as follows:

[In thousands, except earnings per share]	1997 $	1996 $
Net income per financial statements	12,871	8,461
Pro forma stock compensation expense, after a nil income tax effect	(1,072)	(207)
Pro forma net income under U.S. GAAP	11,799	8,254
Pro forma earnings per share under U.S. GAAP	0.85	0.73

The Company has utilized the Black-Scholes option valuation model to approximate the fair value of options granted, assuming a weighted average option life of 3 years, risk-free interest rates ranging from 3.94% to 5.41%, a dividend yield of nil and a volatility factor of 34%. The weighted average fair value of options granted is estimated at $9.17 per share in 1997 [1996 – $6.09].

Due to the vesting characteristics of these options, the above pro forma adjustments for Statement No. 123 are not likely to be representative of the effects on pro forma earnings per share in future years.

The continuity of the outstanding stock options is as follows:

	1997		1996	
	Class A	Class B	Class A	Class B
Balance, beginning of year	219,100	600,750	320,025	632,225
Granted	—	471,300	—	170,000
Exercised	(2,325)	(101,550)	(43,375)	(133,425)
Cancelled	—	(14,900)	(57,550)	(68,050)
Balance, end of year	216,775	955,600	219,100	600,750

New developments

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share", which the Company will adopt for its fiscal quarter ending February 28, 1998. At that time, the Company will replace primary and fully diluted earnings per share with basic and diluted earnings per share. The dilutive effect of stock options will be excluded from basic earnings per share but included in the computation of diluted earnings per share. Had the Company been allowed to adopt Statement No. 128 for the fiscal year ended November 30, 1997, basic earnings per share and diluted earnings per share would have been $0.96 [1996 – $0.78] and $0.93 [1996 – $0.74], respectively.

Notes

1997 Awards

CINAR Corporate Awards

1997 Canada Export Award
Department of Foreign Affairs
and International Trade

Power 50 Women
Hollywood Reporter Magazine
Micheline Charest - 19th rank

15 Most Powerful People in Animation
Animation Magazine
Micheline Charest & Ronald A. Weinberg

Woman of the Year Award
Canadian Women in Communications
Micheline Charest

The Seventeenth Annual
Management Achievement Awards
Faculty of Management, McGill University
Micheline Charest

CINAR Product Awards

WIMZIE'S HOUSE™

1997 Parents' Choice Gold Award

1997 Prix Gémeaux
Academy of Canadian Cinema & Television
Best Children' s Program, 2-12 years old (dramatic)

Alliance for Children and Television's
Awards of Excellence
Best Pre-school Program (French)

ARTHUR™

1997 Parents' Choice Gold Award

Worldfest Houston 1997
Best TV Series: Family / Children
Finalist Award Winner

US International Film and
Video Festival 1997
Silver Screen Award in Animation:
Non-Computer

Museum of Television and Radio
International Children's Film Festival 1997

Alliance for Children and Television's
Awards of Excellence
Best Animated Program

LASSIE™

1997 Parents' Choice Awards
Silver Honor

1997 Worldfest-Charleston
Gold Award: TV Series
Family & Children Category

THE BUSY WORLD OF RICHARD SCARRY™

1997 Parents' Choice Awards
Silver Honor

LES INTRÉPIDES

Le Lys de la paix - 1997
Travail de réflexion pour des ondes pacifiques
(T.R.O.P.)
Positive Entertainment Alternatives For Children
Everywhere (P.E.A.C.E.)
Émission pacifique 1996-97

CARSON-DELLOSA Corporate Awards

Vendor of the Year
J.L. Hammet Company
Recipient: Carson-Dellosa

Million Dollar Achievement Award
J.L. Hammet Company
Recipient: Carson-Dellosa

Wild Goose Company Product Awards

NEWTON'S APPLE®

1997 Parents' Choice Gold Award
Oooh Aaah Chemistry

1997 National Parenting Center Seal of Approval
Newton in the Tub
Newton's Greatest Hits

Dr. Toy Best Vacation Product
Newton in the Tub

Parenting Magazine
Newton Uncovered

Best Toy Award -
The DuPont Nemours Foundation
Newton's Body Shop

GOOSE EGG SCIENCE

Dr. Toy Best Vacation Product
Slime Chemistry

Astra - 10 Best Kept Secret Toys
Micro Mucus

REAL SCIENCE - REAL FUN!™

National Association for Gifted Children
Kitchen Table Chemistry

LEONARDO - BOSTON MUSEUM OF SCIENCE

Dr. Toy 100 Best Children's Products
Leonardo Da Vinci Construction Company

Dr. Toy 10 Best Educational Products
Leonardo Da Vinci Construction Company

CINAR Films Inc.

1055, boul. René-Lévesque Est
Montréal (Qc) Canada H2L 4S5
T: (514) 843-7070 F: (514) 843-7080
http://www.cinar.com